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ABSTRACT

This three-part curriculum for entrepreneurship education is primarily for postsecondary level, including four-year colleges and adult education, but it can be adapted for special groups or vocational teacher education. The emphasis of the seven instructional units in Part II is on establishing a business. Unit B focuses on choosing a business location. It acquaints the student with some factors that should be considered when selecting the business site. Some topics include buying an existing business and site selection for various types of businesses. Activities are designed to provide first-hand experience in looking for, finding, and selecting a business site. Material is organized into three levels of learning which progress from simple to complex concepts: Exposure, Exploration, and Preparation/Adaptation. Each level contains preassessment; teaching/learning objectives; substantive information (questions in margins guide the students' reading); activities, including a postassessment; and a self-evaluation. Definitions of important terms are found at the beginning of the unit; a bibliography and listing of sources for further information are appended. The four-page instructor's guide contains the teaching/learning objectives, teaching/learning delivery suggestions, and pre/postassessment suggested responses. (YLB)

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Research and Development Series No. 194 B-2

P A C E

A PROGRAM FOR ACQUIRING COMPETENCE IN ENTREPRENEURSHIP

PART II: Becoming an Entrepreneur
UNIT B: Where to Locate the Business

The National Center for Research in Vocational Education
The Ohio State University
Columbus, Ohio 43210

1980

U S DEPARTMENT OF HEALTH, EDUCATION & WELFARE
NATIONAL INSTITUTE OF EDUCATION

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PART II: BECOMING AN ENTREPRENEUR

UNIT B: WHERE TO LOCATE THE BUSINESS

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FOREWORD

Traditionally vocational education has been geared primarily to preparing students for employment--to preparing employees. Yet there is another career path available; students can learn how to set up and manage their own businesses. They can become entrepreneurs.

Vocational education, by its very nature, is well suited to developing entrepreneurs. It is important that entrepreneurship education be developed and incorporated as a distinct but integral part of all vocational education program areas. A Program for Acquiring Competence in Entrepreneurship (PACE) represents a way to initiate further action in this direction.

The strength behind these instructional units is the interest and involvement of vocational educators and successful entrepreneurs in the state of Ohio and across the nation. Special recognition is extended to the project staff: Lorraine T. Furtado, Project Director and Lee Kopp, Program Associate. Appreciation is also expressed to the many who reviewed and revised the drafts of the units: Ferman Moody, Hannah Eisner, and Sandra Gurvis. We owe a special thanks to those consultants who contributed to the content of this publication: Carol Lee Bodeen, Louis G. Gross, Douglass Guikema, Peter G. Haines, Philip S. Manthey, Charles S. McDowell, Mary E. McKnight, Steven R. Miller, Barbara S. Riley, Barbara A. Rupp, Ruth Ann Snyder, Robert L. Suttle, Florence M. Wellman and Roy H. Young.

Robert E. Taylor
Executive Director
The National Center for
Research in Vocational Education

HOW TO USE PACE

A Program for Acquiring Competence in Entrepreneurship (PACE) is a curriculum responsive to the need for instruction in entrepreneurship. It is primarily for postsecondary level, including four year colleges and adult education, but it can also be adapted for special groups. PACE is divided into three parts (1) Getting Ready to Become an Entrepreneur, (2) Becoming an Entrepreneur (establishing a business), and (3) Being an Entrepreneur (operating a business).

Each of the three parts has a set of instructional units which relate to that topic. Within these units, the material is organized into three levels of learning: Exposure, Exploration, and Preparation/Adaptation. These levels of learning progress from simple to complex concepts.

The levels of learning will enable you to use the PACE materials to suit your individual needs. You may find it best to work with the exposure level of one unit and the exploration level of another. Or, you may choose to pursue one level throughout the entire series. You might also want to work through two or more levels in one unit before going on to the next unit.

Before beginning a unit, discuss with your instructor what level or levels of learning in that unit are most appropriate to your goals and abilities. Read the unit overview and look through the pre/post-assessments for the three levels to help you in your choice. Also check the list of definitions you might need to look up or research for that level.

When you are ready to start, turn to the level you have chosen, take the preassessment and identify those items which you feel need special attention in the unit. Also look at the learning objectives; they will tell you what you should be able to do by the time you finish that level of learning.

As you read, you will notice questions in the margins alongside the substantive content portion of each level. Use these questions to guide your reading.

At the end of each level of learning are activities which help you become involved with the content presented in the unit. You and your instructor can decide on how many activities you should do; you may want to do several or you many need to do all.

Then, evaluate yourself. Is there any material that you need to review before you take the postassessment? The difference in your answers on the pre/postassessments should show you how much you have grown in your knowledge of entrepreneurship.

When you and your instructor feel that you have successfully completed that level, you are ready to begin another level of learning, either in the same unit or in another.

OVERVIEW OF THE UNIT

Whether you are buying an existing business or starting a new one, it is vital that you choose your location very carefully. Deciding where to locate a business is a very important decision. The business location can "make or break" the venture. The manufacturer, the owner of a service firm, the wholesaler, and the retailer must select the "right" site for their business.

This unit will acquaint you with some factors which should be considered when selecting the business site. You will be able to participate in activities designed to give you firsthand experience in looking for, finding, and selecting a businesss site.

DEFINITIONS TO KNOW BEFORE YOU BEGIN

As you read through a level, you might find some unfamiliar words. Listed below are several business terms used in each level. Knowing these before you begin might help you to better understand that level.

EXPOSURE

site

expanding market

EXPLORATION

site

retail business

service business

wholesale business

industrial park

raw materials

supply and demand

PREPARATION/ADAPTATION

working capital

fixed assets

access

audit

appraisal

appreciation

sublease

service business

retail business

wholesale business

PACE

PATH OF STUDY

PART I -- GETTING READY TO BECOME AN ENTREPRENEUR

Unit I A

Unit I B

Unit I C

PART II -- BECOMING AN ENTREPRENEUR

Unit II A

Unit II B -- Where to Locate the Business

Unit II C

Unit II D

Unit II E

Unit II F

Unit II G

PART III -- BEING AN ENTREPRENEUR

Unit III A

Unit III B

Unit III C

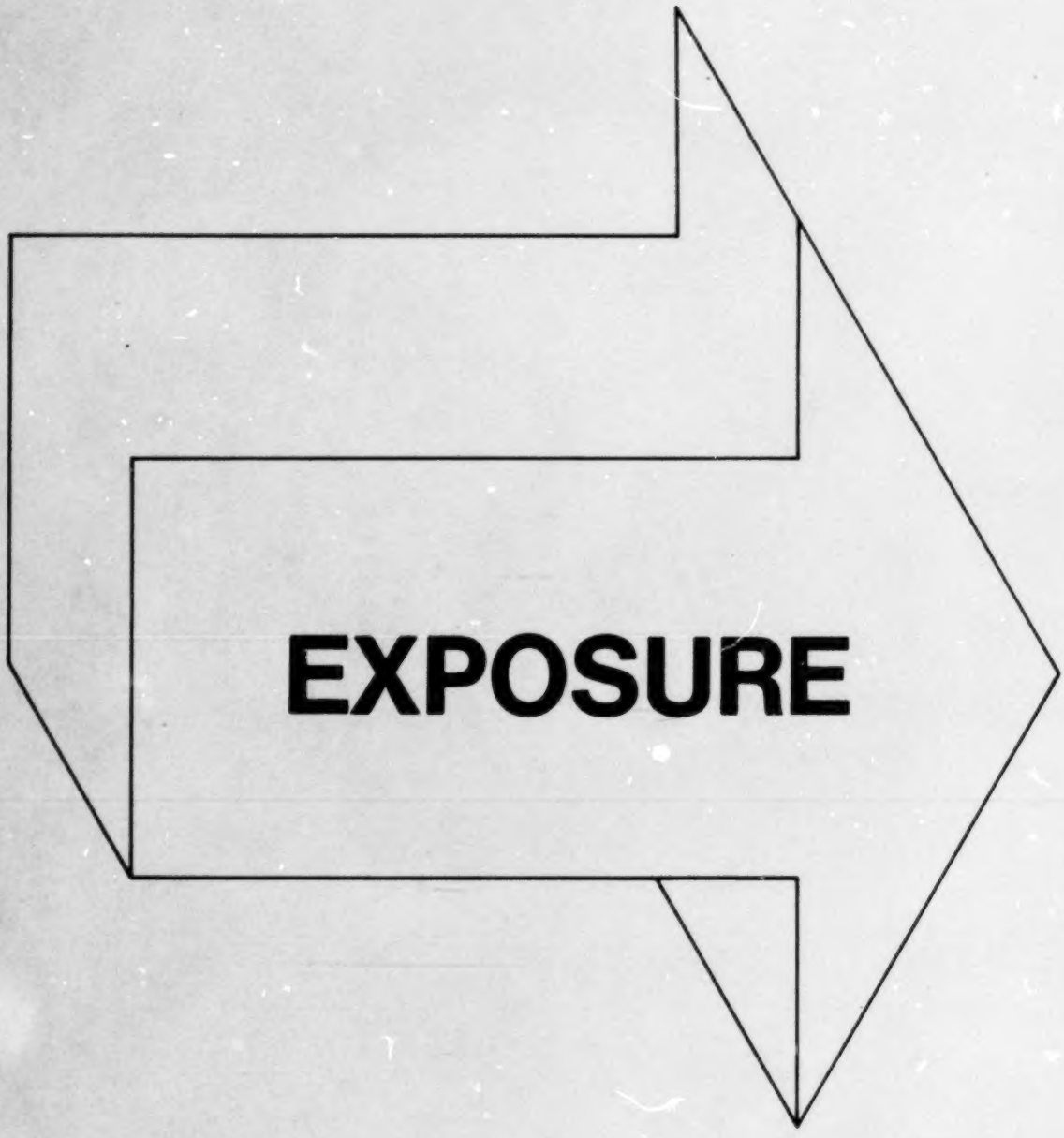
Unit III D

Unit III E

Unit III F

Unit III G

Unit III H


EXPOSURE

EXPOSURE

PART II, UNIT B
WHERE TO LOCATE
THE BUSINESS

PREASSESSMENT

Here are some questions that test for knowledge of the contents of this level. If you are very familiar with the information needed to answer them, perhaps you should go to another level or unit -- check with your instructor. Otherwise, jot down your answers. After you've read through this level, take the postassessment at the end of the "Exposure Activities" section and measure what you've learned.

1. Do you agree with the statement, "Selecting the right business site can be the difference between success and failure in the business?" Why or why not?
2. What are the advantages of buying an existing business?
3. What are the disadvantages of buying an existing business?
4. What are some reasons for starting a new business?
5. What factors are important in selecting a site?

TEACHING/LEARNING OBJECTIVES

Upon completion of this level of instruction you should be able to:

1. Explain the importance of selecting the right business site.
2. Identify the advantages and disadvantages of buying an existing business vs. starting a new business.
3. Name and describe two reasons for starting a new business.
4. Name and describe each of the factors that must be considered when selecting a site.

SUBSTANTIVE INFORMATION

BUYING AN EXISTING BUSINESS VS. OPENING A NEW BUSINESS

SHOULD YOU BUY AN EXISTING BUSINESS OR START A NEW ONE?

One of the most basic decisions you will make is whether to buy an existing business or start a new one. Both options have advantages and disadvantages.

Advantages of Buying an Existing Business

WHAT ARE THE ADVANTAGES OF BUYING AN EXISTING BUSINESS?

1. *Studying the site will be easier.* Existing businesses often have such readily available data as traffic studies, counts of the number of people who pass the location at various times of the day, type of potential clientele who shop the area, etc.
2. *The current owner's equipment, furnishings and fixtures will be available.* You will save time because you will not have to locate all of the necessary materials. In addition you will probably cut costs using the available materials.
3. *Previous owners or employees will be able to help you manage the organization.* They can provide you with helpful contacts which will save you time and money. There may be no need to hire new employees.
4. *You may have established customers.* These customers could be a tremendous source of income which may reduce the risk inherent in opening a business.

Disadvantages of Buying an Existing Business

WHAT ARE THE DISADVANTAGES OF BUYING AN EXISTING BUSINESS?

The location may be so poor that even the most effective management could not make the business succeed. Beware of the deal that sounds "too good to be true." The owner/manager may have driven customers away; the inventory may be outdated; fixtures and building could be in poor condition, and equipment obsolete.

Advantages of Starting a New Business

WHAT ARE THE ADVANTAGES OF STARTING A NEW BUSINESS?

The advantages of starting a new business are numerous. You will have the opportunity to select your own employees, fixtures, and equipment. You have no need to follow up the previous owner's policies and practices and can develop your own. You can "start anew" with clientele without any ill will previous owners may have created.

Disadvantages of Starting a New Business

WHAT ARE THE DISADVANTAGES OF STARTING A NEW BUSINESS?

Choosing a new site is more of a gamble; you will need to study a number of locations, gather city and local data (if available) and, in general, rely more on your "educated instinct." When you purchase materials needed for your new business, you will find that costs have probably risen. You must also build up and maintain a completely new and unknown clientele.

SITE SELECTION CRITERIA

HOW IMPORTANT IS IT TO FIND THE RIGHT LOCATION?

Studies of business failures indicate that a large number of businesses fail each year because they did not consider site factors. Whether you buy an existing business or start a new one, careful consideration must be given to all the site selection factors. This is no simple task.

Population

WHAT MUST BE CONSIDERED IN SELECTING A SITE?

Entrepreneurs should identify the segments of the population from which they believe the majority of their potential customers will come. For example, if you are interested in opening a record store, it would be important to know where the greatest population of teenagers and young adults in the area is located.

Other population factors include: How stable is the area? Do people move in and out regularly? Is the population growing or declining? If the area is rapidly growing there will probably be a large number of young families. All these factors need to be considered in relation to your business.

Income

WHY IS INCOME DATA IMPORTANT?

Because income reflects the demand patterns that exist for goods and services, prospective entrepreneurs should gather information regarding income in the area selected. Specific questions to be answered include: What is the average income?

Is there a mixture of income levels (low, medium, high) in the area, or is the area predominately one income level? What are the employment/unemployment trends?

Competition

WHAT ABOUT COMPETITION?

Almost all businesses face some competition. As a prospective entrepreneur, you should analyze your competitors and gather information on their strengths and weaknesses. You should know how many competitors exist in your potential sales market, and where they are located. There are three justifications for opening a new firm, the absence of similar firms, 2) the presence of poorly managed companies, or 3) an expanding market.

You should also find out how many businesses similar to yours have opened or closed in the past two years. Indirect competition that provides similar kinds of goods and services is another factor to analyze.

Type of Industry in the Area

WHAT INFORMATION SHOULD BE GATHERED ON LOCAL INDUSTRIES?

A study should be made of the industries in the area and should answer the following questions: Are 80% of the townspeople dependent on one industry for employment? Or does the community have a diverse number of industries? Is industry in the area substantial and permanent? Is it seasonal in nature? Are more industries moving in or are many locating elsewhere? You will need to analyze the impact these industrial conditions will have on your business.

EXPOSURE ACTIVITIES

Selecting a site is a very important part of beginning a business. Now that you have learned some of the factors involved, try these activites. They may help you in selecting a location for your business.

ASSESSMENT ONE

1. Write a paper (no longer than three pages) in which you state the reasons for buying an existing business instead of starting a new one.
2. Assume that a friend, who is considering opening a beauty shop, asks you for help in selecting the site. What information would you provide?
3. Are there any real advantages to opening a new business vs. buying an existing one?
4. You have made a decision about the type of business you wish to own and would like to operate in your local community. Would it be best for you to buy an existing business or open a new one? Why?

POSTASSESSMENT

1. Explain the statement, "Selecting the right business site can be the difference between success and failure of the business."
2. List and discuss two advantages of buying an existing business.

3. List and discuss two disadvantages of buying an existing business.
4. Identify and discuss two reasons for starting a new business.
5. Name and describe the factors that must be considered when selecting a site.

Compare your answers to your responses to the preassessment. You may want to check your postassessment answers with your instructor.

SELF-EVALUATION

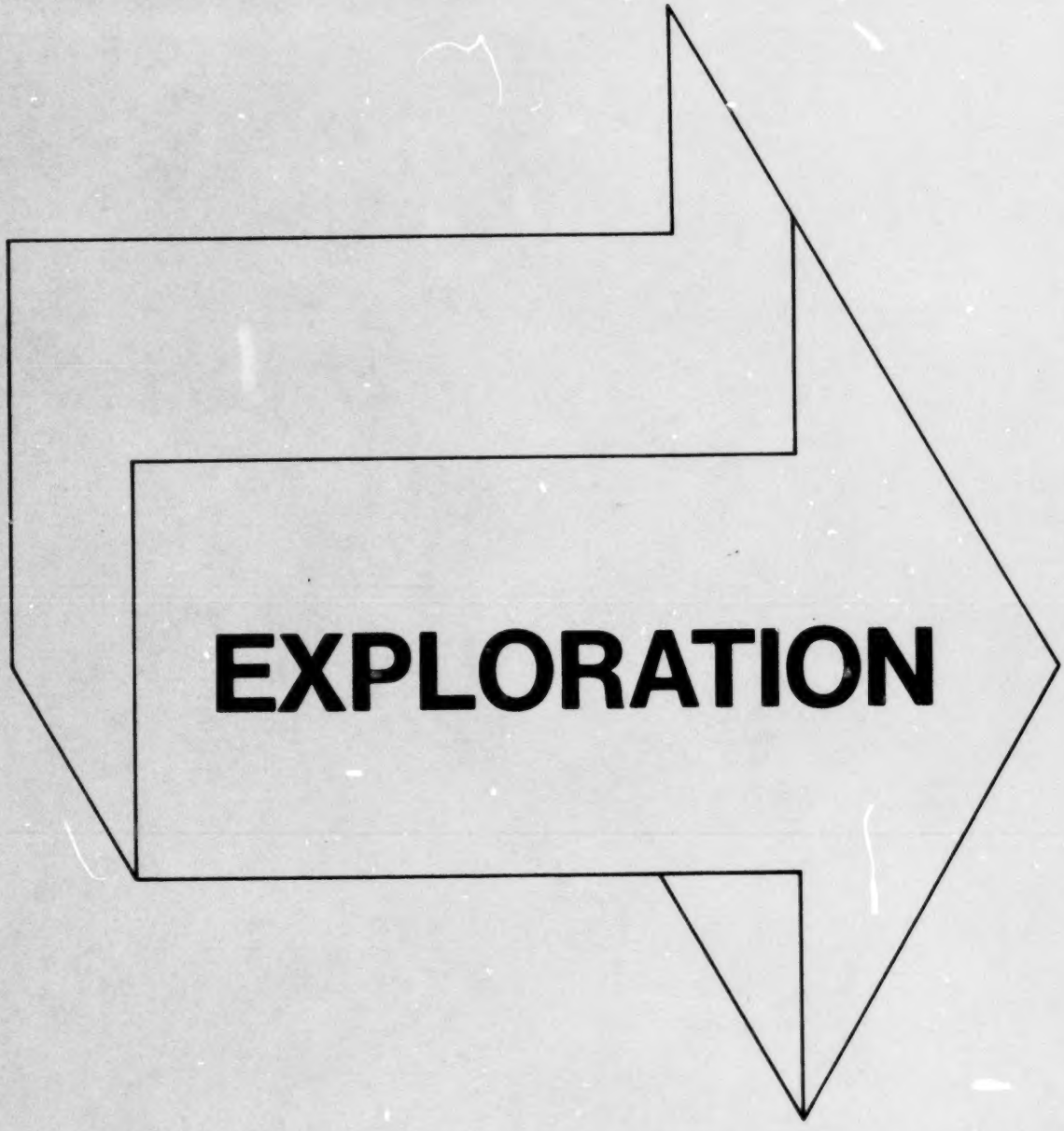
How well did you know the information needed to do the activities?

( ) Very well

( ) Fairly well

( ) A little

Be honest with yourself. If you feel you don't know the material well enough, it might be helpful to review this section before going on.


EXPLORATION

PREASSESSMENT

Here are some questions that test for knowledge of the contents of this level. If you are very familiar with the information needed to answer them, perhaps you should go to another level or unit -- check with your instructor. Otherwise, jot down your answers. After you've read through this level, take the postassessment at the end of the "Exploration Activities" section and measure what you've learned.

1. What factors should be considered when selecting a city or town?
2. What steps are involved in selecting the "right" location?
3. Discuss the statement, "The same factors should be considered when selecting a site for a retail establishment, wholesaling enterprise, service business, and manufacturing firm." Do you agree or disagree with this statement? Why?
4. What resources are available to help entrepreneurs make the "right" site selections?

TEACHING/LEARNING OBJECTIVES

Upon completion of this level of instruction you should be able to:

1. Explain the four basic factors to consider when selecting the city or town in which to locate the business.
2. Identify the steps involved in selecting the right business site.
3. Explain the different factors which must be considered when selecting sites for retail establishments, wholesale establishments, service businesses, and manufacturing firms.
4. Name resources which help entrepreneurs make the right site selections.

SUBSTANTIVE INFORMATION

STEPS IN SITE SELECTION

WHAT ARE THE STEPS IN SITE SELECTION?

In selecting a city or town within a geographical area, consideration must be given to these four factors (1) characteristics of the population, (2) income, (3) competition, and (4) type of industry. Before you take these steps, however, you must select a geographic area, then a town or city within that area, and finally a specific site within that city or town. A map is very useful to have, especially after the site has been chosen. Opening a business in your home town can be an advantage since you know the area, the people and their likes and dislikes.

Perhaps you have already decided upon a favorable city or town. You may have even selected the section of the city you believe will be best. After you have made these decisions you can turn your attention to the specific site to be chosen. Many of the same questions raised for the selection of the city or town should be raised about the various sections.

First, you should define the segments of the population from which you believe the majority of your clientele will come. Factors such as number of young families, ages of children, mobility into and out of the area, and rapid growth or decline of the neighborhood should be considered.

Second, your product or service should be considered in terms of the income characteristics of the community. Every business needs to determine if the people who can afford to or are willing to buy its services or products are sufficiently represented in the community. You must decide what community will provide the best market for you. For example, you should not plan to market a luxury product in a low income community.

Third, you must know your competition. Is the market expanding to make room for your business? How could your business better serve the market? You need the answers to these questions.

Finally, the industry of the community provides the economic base for your customers. Is it increasing or declining? What are the characteristics of the labor force? What are the major trends?

No matter what type of business you plan to operate, the basic questions regarding location, including population, income, competition, and type of industry in the area, must be studied. There are also a number of other factors that may relate to your business. The following questions will guide you in studying a community.

1. What is the newspaper circulation? Are there concentrations of circulation?
2. What other media are available for advertising? How many radio and television stations are there?

3. Is the quantity and quality of available labor concentrated in a given area in the city or town? If so, is commuting a way of living in that city or town?
4. Is transporation available and adequate? Are transportation costs high?
5. Is the city centrally located to your suppliers?
6. What are the labor conditions, including such things as relationships with the business community and average wages and salaries being paid?
7. Is the local business climate healthy? Or are business failures especially high in the area?
8. What about tax requirements? Is there a city business tax? Income tax? What is the property tax rate? Is there a personal property tax? Are there other special taxes?
9. Is the available police and fire protection adequate?
10. What is the community environment like? Do the schools have a good reputation? Are there service clubs? How active are these groups?
11. Is the city or town basically well planned and managed in terms of such items as adequate electric power, sewage, and paved streets and sidewalks?

12. What do you think this city or town will be like in ten years? Does it appear that it will continue to prosper and grow or will it decline?

SELECTING THE RIGHT SITE

DOES THE TYPE OF BUSINESS AFFECT THE SUITABILITY OF A SITE?

The type of business you plan to operate often determines if a site is good or bad. There are some basic site considerations which must be reviewed for every type of business. They include lease purchase terms, nearby competition, parking facilities, and probable costs of business operations at the site. In addition to these basic concerns, some specific questions also need to be answered which are dependent upon whether you are opening a retail establishment, a manufacturing firm, a wholesale business, or service business.

Retail Establishments

WHAT ABOUT SELECTING SITES FOR RETAIL ESTABLISHMENTS?

Parking facilities and access to major roads have become a major problem for many retailers. However, those retailers whose stores are located within shopping centers have less of a parking problem.

Retailers need to consider the types of businesses that surround a site. Studies have shown that apparel stores should not be located next to service stations.

Pedestrian traffic is also important to a retailer. For example, the retailer should ask, "Are pedestrians who pass this site on their way to public transportation or to the local theatre?" Those en route to the threatre are not likely to stop to make purchases.

No site is simply a good or bad retail location. Factors such as type of merchandise sold and the firm's customer service policies regarding phone orders also come into play. Therefore, when you analyze a site, consider the type of retail business you plan to operate.

Wholesale Establishments

WHAT SHOULD YOU LOOK FOR IN A WHOLESALE SITE?

Two factors are major consideration in selecting a wholesale site. They are good transportation service, including air, rail and truck; and proper facilities. Without these advantages, the wholesaler could not maintain inventories large enough to handle customer needs.

Most cities have zoning laws which restrict the location of wholesale firms. These laws need to be thoroughly investigated. Wholesale firms shoud also be located as close as possible to their potential markets.

Service Businesses

WHAT IS IMPORTANT IN LOCATING A SERVICE BUSINESS?

Proximity to a large shopping center usually considered ideal for service businesses. Normally it is not necessary for the T.V. repair shop, cleaners, dentist, shoe repair shop, and child-care facility to locate in high-rent locations. Customers are willing to seek out and go farther to obtain good service, so these establishments can be somewhat "out of the way." But even among service firms there are significant differences as to which site is better. For example, a dry cleaners which locates near a grocery store and a drugstore is usually a good choice. However, the same location would not necessarily be good for a dentist, who may not require all the traffic and the convenient drop-off point that could make the dry cleaners successful.

Manufacturing Firms

WHAT ABOUT SITES FOR MANUFACTURING FIRMS?

Sites that are suitable for manufacturing firms differ from sites which are good or bad for retailers, wholesalers, and service firms. If you are considering opening a manufacturing firm, check into the zoning laws, shipping facilities, availability of appropriate buildings, distance from raw materials, and nearness to the potential market. Because the industrial park concept has become very important within the last ten years, most cities have restricted areas for factory locations. All the above are important considerations.

OBTAINING INFORMATION

WHERE CAN YOU GET DATA?

Your business location must be selected as a result of study, not a hunch. Selecting the correct site is a complex task, requiring an extensive analysis of many factors. As previously discussed, these factors relate to the type of business to be established, customers to be served, and types of goods and services to be sold. Therefore, conducting a comprehensive market study is very important. This market research study does not need to be sophisticated nor highly complicated, but it must be done carefully. In addition to conducting your own research, a great deal of free or inexpensive date is available.

One source of information is the annual Statistical Abstract of the United States. This document includes national demographic data on such items as population and income.

Any city or county with a population of over 25,000 is included in the County and City Data Book. This directory contains such information as the number of businesses, number of families, average income, and number of multifamily and single-family housing units in an area.

Another publication which provides useful information is The Survey of Current Business. This monthly publication includes monthly sales volume figures for various products and services, economic information including unemployment data, and monthly articles on timely subjects, such as changes in consumer buying behavior.

Market information can also be obtained from various government agencies. The Department of Labor's Bureau of Labor Statistics has current information on such labor problems as unemployment and wages. The Office of Minority Business Enterprises (OMBE) of the Department of Commerce provides information and services to minority entrepreneurs.

Chambers of Commerce normally have a great amount of information about the area they represent. Trade associations publish statistics that can be helpful in selecting a site. The local bank where you might want to obtain a loan probably has information on the average income. It may also have economic supply and demand projections.

Evaluate and study trends, gather all the data you can. Analyze the data you gather completely, so you can make a sound decision and select the best site.

EXPLORATION ACTIVITIES

Do you feel competent enough in selecting a site to be able to put what you have learned into practice? The following activities will help you experience some "real" site selection situations. After completing the activities, do a self-evaluation to check your understanding of the material.

ASSESSMENT ONE

1. Contact the staff members of your local Chamber of Commerce office or a similar organization and ask them to meet with your group. Have them describe the available resources for entrepreneurs to review when making site decisions. Do they provide any seminars or meetings to attract entrepreneurs to the area?
2. Can you suggest a product or service not currently available in your area that might support a new small business?
3. What sources might be most appropriately used in investigating possibilities for a new:
    - Drugstore
    - Daycare center
    - Service station
    - Farm equipment store
    - Coin operated self-service laundry

4. For the business venture you are considering, develop a plan which includes the three steps in site selection that you would use to help you make the "right" decision. In your plan, you might want to include any checklists you would use and maps of the area. Identify outside resources you would consult. Make your plan complete. Include in the plan exactly what you would do and how you would do it. Present the information in the order in which you would go about selecting the site.
5. What role should personal and family considerations play in making a location decision?

POSTASSESSMENT

1. Discuss two of the four basic factors which need to be considered when selecting and analyzing the city or town in which to locate the business.
2. Identify the steps involved in selecting the right business location.
3. Discuss this statement, "The same factors should be considered when selecting a site for a retail establishment, wholesaling enterprise, service business, and manufacturing firm." Do you agree or disagree with this statement? Why?

4. Name and define two resources that are designed to help entrepreneurs make the right site selections.

Compare your answers to your responses to the preassessment. You may want to check your postassessment answers with your instructor.

SELF-EVALUATION

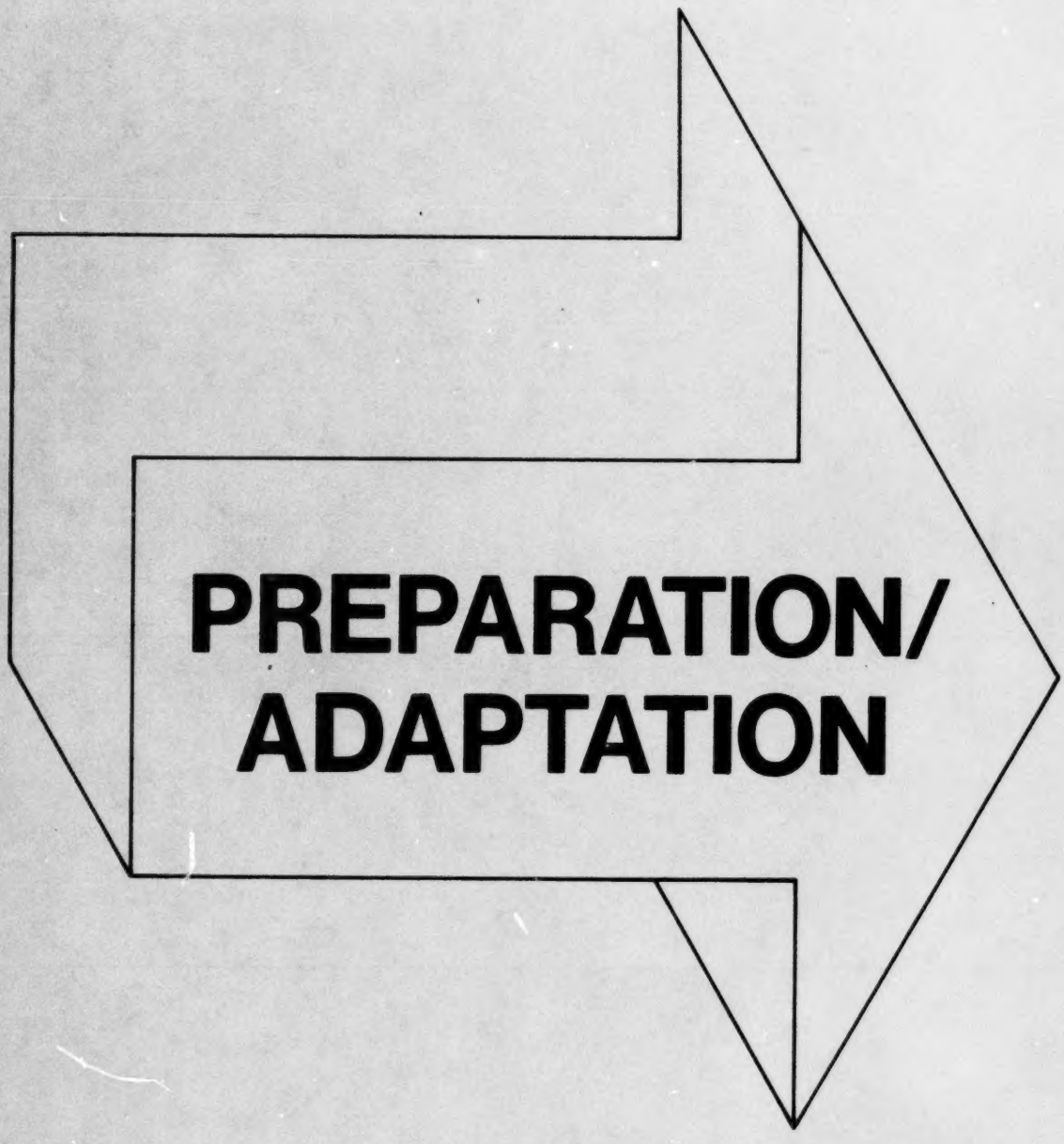
How well did you know the information needed to do the activities?

( ) Very well

( ) Fairly well

( ) A little

Be honest with yourself. If you feel you don't know the material well enough, it might be helpful to review this section before going on.


PREPARATION/
ADAPTATION

PREASSESSMENT

Here are some questions that test for knowledge of the contents of this level. If you are very familiar with the information needed to answer them, perhaps you should go to another level or unit -- check with your instructor. Otherwise, jot down your answers. After you've read through this level, take the postassessment at the end of the "Preparation/Adaptation Activities" secton and measure what you've learned.

1. Are the factors the same in selecting a site for a dry cleaning business and a clothing store? If they differ, in what ways?
2. You are meeting with one of the current owners of a business that you may purchase. You ask the owner, "Why are you selling the business?" The owner says, "We are selling our business because my partner is in poor health and it's just too much for me to handle alone." How would you react? Would you attempt to discover if this is the real reason why the business is being sold? How?
3. What information should be included in an audit of an existing business you are thinking of buying?

4. Why is appraising the building, equipment, etc of a business you are thinking of buying so important?

5. What information should be included in a lease agreement?

TEACHING/LEARNING OBJECTIVES

Upon completion of this level of instruction you should be able to:

1. Identify and provide examples of the four basic factors to be considered when selecting a site.
2. Illustrate some important differences in the site considerations for different types of businesses.
3. Explain what needs to be considered when buying an existing business, and identify resources available for helping the entrepreneur conduct an evaluation of an existing business.
4. Discuss the importance of audits and appraisals and describe what they ought to include.
5. Describe the information that should be included in a lease agreement.

SUBSTANTIVE INFORMATION

SITE SELECTION

WHAT ARE THE FACTORS TO CONSIDER IN SELECING A SITE?

The importance of selecting a business location cannot be overestimated. The combination of type of business and location frequently makes the difference between success or failure.

Location

WHAT ABOUT LOCATION?

In selccting a location an entrepreneur usually narrows the focus from a wide geographical consideration to a specific community, and finally to a particular address within the community. In this process four factors must be given major consideration (1) population, (2) income, (3) competition, and (4) the industry located in the area.

You will need population information simply because you will have to be sure the area can support your business. You should try to determine if there is a sufficient number of the kinds of people who need a particular product or service in the area where you want to locate. You should learn as much about the population as you can. For instance, selling health care products in a retirement community would undoubtedly be different from selling such products in a community of young families.

The income characteristics of a community often determine what kinds of products or services will sell. For example, the amount of discretionary income--money that is left after the basic

human needs of food, shelter, and clothing are purchased--may determine whether a product or service is saleable. You could not expect to sell a Rolls Royce to a family on a Volkswagon budget.

Another important consideration is your competition. You must determine whether the demand for a product in the market you are considering can support your business in addition to the competition. You might ask yourself if the market is expanding, if your firm could better serve the market and capture some of the competition's business. These are not always easy questions to answer.

Finally, the industry located in a community often determines its financial characteristics and the economic welfare. This includes the type of people in the labor force and the economic trends for the next five, ten, or twenty years.

Type of Business

DO DIFFERENT TYPES OF BUSINESSES REQUIRE DIFFERENT TYPES OF LOCATIONS?

The type of business will also determine whether a site is good or bad. For instance, different factors should be used to select a site for a retail business than for a wholesaler. Service businesses require different types of locations than businesses that sell products.

Easy access and traffic patterns are prime considerations of retail establishments. Customers should be able to reach these from major roads and ample parking facilities should be available. Even the various types of pedestrian traffic patterns within a shopping center are important to different

types of retail businesses.

Numerous studies of the types of access patterns have been conducted for specific retail businesses. Anyone considering starting a retail business should examine these accessibility studies. Theatres, service stations, drugstores, and apparel shops all vary in important ways.

Different factors should be considered when selecting sites for wholesale establishments. Rail, truck, and air carriers should have easy access. The wholesale establishment should be suitably located. Because of the nature of the facilities, equipment, and fixtures, the number of suitable sites is often limited by zoning laws and permits.

Although closeness to a shopping center has its advantages for many service businesses, customers are more prone to seek out and travel farther for a service. They will often go out of their way to visit a preferred dentist or a T.V. repair shop. Yet even among various service firms, significant differences exist in the factors to be considered in site locations.

Manufacturing firms have the most restrictive zoning limitations. If you are considering a manufacturing business, check into zoning laws, shipping facilities, availability of appropriate buildings, distance from raw materials, and nearness to the potential market. All are important site considerations.

Selecting the right site is of vital importance to the success of your business. To help you rate available sites as you study them and to compare these sites in terms of their suitability for your type of business, the Small Business Administration (SBA) "Rating Sheet on Sites" is provided on the following page.

EVALUATING AN EXISTING BUSINESS

WHAT SHOULD YOU DO BEFORE YOU BUY AN EXISTING BUSINESS?

There are a number of reasons for buying an existing business, but there are also advantages to opening a new business. Before you decide which is better for you, perhaps you should evaluate an existing business. As a potential buyer, you must carefully analyze the business to determine its worth. Throughout your evaluation, you should be consulting such experts as public accountants, bankers, lawyers, Chamber of Commerce personnel, professional trade association advisors and real estate people. They will provide you with objective answers to your questions.

One of the very first questions you should try to answer is: "Why does the seller want to sell?" Is it because of poor personal health, retirement, or decreasing sales? Sometimes entrepreneurs buy an existing business and find out a year later that the seller opened a competing business at a more favorable location. You should consider the seller's answer thoughtfully. You want to be sure it is accurate.

RATING SHEET ON SITES

Grade each factor: "A" for excellent, "B" for good, "C" for fair, and "D" for poor.

	FACTOR	*GRADE*
1.	*Centrally located to reach my market*	.....
2.	*Raw materials readily available*	.....
3.	*Quantity of available labor*	.....
4.	*Transportation availability and rates*	.....
5.	*Labor rates of pay/estimated productivity*	.....
6.	*Adequacy of utilities (sewer, water, power, gas)*	.....
7.	*Local business climate*	.....
8.	*Provision for future expansion*	.....
9.	*Taxation burden*	.....
10.	*Topography of the site (slope and foundation)*	.....
11.	*Quality of police and fire protection*	.....
12.	*Housing availability for workers and management*	.....
13.	*Environmental factors (schools, cultural, community atmosphere)*	.....
14.	*Estimate of quality of this site in 10 years*	.....
15.	*Estimate of this site in relation to my major competitor*	.....

(Locating or Relocating Your Business, 1973, p. 7)

Also talk with the local bankers, customers, suppliers, and possibly even competitors and employees. Listen to what they say. Be especially careful; knowing the real reason for selling will help you decide whether or not to buy.

Another major concern when evaluating the business is determining its profit potential. When analyzing profit information you should ask three questions (1) What are the profit trends of the business? (2) Are the profits similar to other businesses in the same industry? (3) If profits are low, is it realistic to believe they can be increased with my leadership?

Other questions that need to be answered are:

1. If the seller has an exclusive selling agreement with a supplier, can that be transferred to you, the new owner?
2. Does the business have a good reputation among its customers?
3. Are there any special licenses that will be required because of change of ownership?
4. What is the total initial amount of money needed to get into this business, including purchase price, working capital, money for repairs, and purchase of new stock?

Before you decide to buy a company, arrange for an audit of the seller's records and financial statements by a reliable public accounting firm. In addition to the current audit report, you will want to have information on past sales and profit figures. This type of information is available through analysis of the seller's tax returns. Beware of a seller who is not willing to share the information needed to conduct a complete audit. An honest seller should be willing to comply with an audit.

It is also wise to have an appraisal by an expert of the equipment, building, fixtures, and other fixed assets to determine their current worth. This requires a physical inventory.

You will also need to evaluate the condition of the inventory. You must determine how much of the stock can be sold, if the inventory is balanced (i.e., Is there too much of one item?), and how much of a loss you will take by getting rid of unsatisfactory items.

Finally, you and the seller must agree upon the price for the business. Since the seller has an emotional investment as well as financial, the selling price will probably be higher that the fair market price. So before you make your final decision, be sure to have an accountant determine the of the business. The sales agreement or contract should be

drawn up by a lawyer. Don't attempt to do these activities yourself unless you are an expert accountant or attorney. This way, future headaches and mistakes can be eliminated.

BUYING VS. LEASING

BUY OR LEASE?

Usually, when businesses first open, the owner cannot afford the cost of a mortgage in addition to a down payment on the premises. Unless the business is in the entrepreneur's home, most locations are leased. However, if money is available, you might want to consider purchasing the business premises. The decision to buy, lease or build must be made carefully. You should get an expert's advice (attorney, real estate broker) before you sign your name on the dotted line.

Buying the Premises

WHAT ABOUT BUYING THE PREMISES?

If you can afford to buy the premises, there are some definite advantages. Your business is assured of continual occupancy. You will not have to worry about being evicted or about nonrenewal of your lease. Owning the premises allows you to modernize it, paint a wall, replace the flooring, and add a new bathroom for employees.

Property values have risen rapidly in the last ten years. It is not unusual to find property purchased ten years ago appreciating 100%. Even when appreciation values do not rise as fast as recently, most property does appreciate in value.

This is not to say there are no risks in owning real estate. The neighborhood can depreciate; the property could be destroyed by a natural disaster.

There are other disadvantages to owning the premises. Having property ties up capital. This could cause problems for the new entrepreneur with limited capital. You have somewhat restricted your ability to relocate the business. Usually the entrepreneur would need to sell the premises to have enough capital to buy another. To forestall this, you could rent the premises to someone else and find a new location to lease. Obviously relocating the business is much more complicated when real estate is involved.

Leasing the Premises

WHAT INFORMATION SHOULD A LEASE INCLUDE ?

Leasing a site is a common practice among most beginning business owners. When receiving the lease, consider these points:

1. How much rent will you have to pay? Will the rental fee be a flat fee or will it be a percentage of sales?
2. Does the owner restrict the use of parts of the facility, such as storage rooms?
3. Does the owner restrict the use of the property to only certain activities? This might become important should you decide after one year to conduct cooking classes in your shop in addition to selling kitchen equipment.

4. Should any improvements be made? If so, to whom do the additions belong?
5. Could you sublease the property? If so, are there restrictions?
6. What provisions are stated in the lease for renewal? Is renewal guaranteed as long as the lease agreement is followed?
7. What types of insurance does the owner have? How much fire insurance, for example, and what does it cover? Are you required to have certain types of insurance?
8. How long is the lease for? Can it be cancelled before it expires? Under what conditions?

PREPARATION/ADAPTATION ACTIVITIES

Are you able to apply these site selection principles to your business aspirations? Are you now familiar with the various factors to consider in selecting a site? The following activities should help you check your knowledge about site selection.

ASSESSMENT ONE

1. Ask a banker or attorney in your community to meet with your group to provide a detailed description of the factors to be considered when buying an existing business.
2. Contact a local real estate broker. Ask the broker these questions (1) Are any businesses up for sale? (2) Where are they located? (3) What are the asking prices and conditions of sale? (4) Have there been any significant trends over the past five years in the number of business going up for sale?
3. What can be learned from an intensive analysis of the financial records of a company?
4. Develop a checklist of all the things you believe ought to be included in a lease agreement that you would be comfortable in signing. Then get a copy of a standard business lease agreement from your local real estate broker. Compare your checklist to the standard lease agreement. Are there differences? In what areas? If you could make two additions to the standard lease agreement what would they be?

5. What will be your attitude toward competition when seeking a good location for your business?

POSTASSESSMENT

1. Assume you and a friend are each attempting to select the right site for your individual businesses. You are opening a dry cleaning business and your friend is going into the men's clothing business. Are there any important differences in the factors you both need to consider? Are the factors the same? Yes? No? Why?
2. You are meeting with one of the current owners of a business that you may purchase. You ask the owner, "Why are you selling the business?" The owner says, "We are selling our business because my partner is in poor health and it's just too much for me to handle alone." How would you react? Would you attempt to discover if this is the real reason why the business is being sold? How?
3. You are thinking about buying an existing business. Describe the information that ought to be included in an audit of the business.
4. Describe the importance of appraising a business that you are considering purchasing.
5. Describe the information that should be included in a lease agreement.

Compare your answers to your responses to the preassessment. You may want to check your postassessment answers with your instructor.

SELF-EVALUATION

How well did you know the information needed to do the activities?

( ) Very well

( ) Fairly well

( ) A little

Be honest with yourself. If you feel you don't know the material well enough, it might be helpful to review this section before going on.

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__. Statistics and Maps for National Market Analysis. Small Business Bibliography, no. 12, 1973.

__. Using a Traffic Study to Select a Retail Site. Small Marketers Aid, no. 152, 1973.

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FILMS

EXPOSURE LEVEL:

"The Right Location" (16 min., sd., color, 16 mm)
Available for purchase or rental from Sales Branch, National Audiovisual Center - General Services Administration, Washington, D. C. 20406. Phone (301) 763-1854.

This film dramatizes the importance of the right location and outlines some of the essential factors to consider in making a site selection study by using the experiences of a young person planning to open a clothing store.

RESEARCH AND DEVELOPMENT SERIES NO. 194 B-2

PACE

A Program for Acquiring Competence in Entrepreneurship

Instructor's Guide

Part II
Becoming An Entrepreneur

Unit B
Where To
Locate The Business

THE NATIONAL CENTER
FOR RESEARCH IN VOCATIONAL EDUCATION
THE OHIO STATE UNIVERSITY
1960 KENNY ROAD • COLUMBUS, OHIO 43210

USING THE INSTRUCTOR'S GUIDE

The Instructor's Guide contains the following:

- Teaching/Learning Objectives (identical to the Teaching/ Learning Objectives found in the PACE unit)
- Teaching/Learning Delivery Suggestions
- Pre/postassessment Suggested Responses

This information is geared towards the three levels of learning, and is designed for use as a supplemental teaching aid. Additional instructions for using PACE, sources of information, and an annotated glossary can be found in the PACE Resource Guide.

PRE/POSTASSESSMENT
SUGGESTED RESPONSES

EXPOSURE

1. Selecting the right business site is an important success factor. A firm must be located at a site that enhances both customer relations and the firm's operations.

2. Advantages of buying an existing business include (a) studying the site may be easier, (b) experienced personnel may be available, (c) current owner's equipment and furnishings may be available, (d) established customers reduce risk.

3. Disadvantages of buying an existing business include a poor location which may render effective management, useless and poor management which may have damaged the firm's image. In sum, you may inherit problems of the previous owner.

4. If you start your own business you can (a) select your own employees, fixtures, equipment, etc.; (b) develop your own operating procedures; (c) develop your own clientele.

5. Population, income, and competition factors must be considered when selecting a site.

EXPLORATION

1. The four basic site selection factors are population, income, competition, and the type of industry.

2. There are three steps in site selection: (a) select a geographic area, (b) select an area in a town or city, (c) select a specific site such as a lot or building.

3. Factors include (a) newspaper circulation, (b) quantity and quality of labor, (c) availability and adequacy of transportation, (d) proximity to suppliers, (e) labor conditions, (f) economic climate, (g) tax requirements,. While the same factors should be considered, different types of businesses might weigh the factors differently.

4. *The Statistical Abstract of the United States, County and City Data Book,* and *Survey of Current Businesses* are three sources of useful information.

PREPARATION/ADAPTATION

1. Because one business venture is a service firm and the other is a retail outlet, the factors considered when selecting sites will differ. The retail outlet should be located near ample parking facilities and should be convenient. Customers will often go out of their way to reach a preferred service firm.

2. While the owner's response may well be the real reason, you should be certain that it is. Talk with local bankers, customers, suppliers, competitors, and employees to discover or verify the owner's reasons for selling.

3. Have a reliable public accounting firm audit the seller's current financial statements. You will also want to have information on sales and profit figures for as many years as possible.

4. An appraisal of the equipment, building, fixtures, and other fixed assets of the business will help you determine their current worth. You will need this information to determine your start-up costs (i.e., replacing obsolete, worn out equipment) should you take over the business.

5. Lease agreements should provide the following information: (a) rental fee, (b) restrictions on building use, (c) subleasing, (d) improvements, (e) lease renewal (f) insurance, and (g) duration of the lease.

LEVELS OF LEARNING	TEACHING/LEARNING OBJECTIVES Upon completion of this level of instruction you should be able to:	TEACHING/LEARNING DELIVERY SUGGESTIONS A variety of different teaching/learning methodologies have been used. To help you organize your work and plan the use of this level these suggestions are made:
Exposure	1. Explain the importance of selecting the right business site. 2. Identify the advantages and disadvantages of buying an existing business versus starting a new business. 3. Name and describe two reasons for starting a new business. 4. Name and describe each of the factors that must be considered when selecting a site.	Contact the local Chamber of Commerce office or other service group to locate resources available to help in selecting a businesss site.
Exploration	1. Explain the four basic factors to consider when selecting the city or town in which to locate the business. 2. Identify the steps involved in selecting the right business site. 3. Name the factors which should be considered when analyzing a city as a possible location for a business. 4. Explain the different factors which must be considered when selecting sites for retail establishments, wholesaling establishments, service businesses, and manufacturing firms. 5. Name resources available to help entrepreneurs make the right site selections.	
Preparation/Adaptation	1. Identify and provide examples of the four basic factors to be considered when selecting a site. 2. Illustrate some important differences in site considerations for different types of business. 3. Explain what needs to be considered when buying an existing business. 4. Identify resources available for helping the entrepreneur conduct an evaluation of an existing business. 5. Discuss the importance of audits and appraisals and describe what they ought to include. 6. Describe the information that should be included in a lease agreement.	1. Invite a real estate broker to discuss trends in the community and businesses currently for sale. Have her or him provide the group with a copy of a business lease. 2. Have a banker and an attorney discuss various factors to consider when buying an existing firm.

The PACE series consists of these parts and units.

PART I: GETTING READY TO BECOME AN ENTREPRENEUR

- Unit A: Nature of Small Business
- Unit B: Are You an Entrepreneur?
- Unit C: How to Succeed and How to Fail

PART II: BECOMING AN ENTREPRENEUR

- Unit A: Developing the Business Plan
- Unit B: Where to Locate the Business
- Unit C: Legal Issues and Small Business
- Unit D: Government Regulations and Small Business
- Unit E: Choosing the Type of Ownership
- Unit F: How to Finance the Business
- Unit G: Resources for Managerial Assistance

PART III: BEING AN ENTREPRENEUR

- Unit A: Managing the Business
- Unit B: Financial Management
- Unit C: Keeping the Business Records
- Unit D: Marketing Management
- Unit E: Successful Selling
- Unit F: Managing Human Resources
- Unit G: Community Relations
- Unit H: Business Protection

RESOURCE GUIDE